

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>North Star Academy</b>	County <b>Marquette</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>10/14/05</b>	Date Accountant Report Submitted to State: <b>11/4/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following.

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Makela, Toutant, Hill, &amp; Nardi, P.C.</b>			
Street Address <b>201 W. Bluff Street</b>	City <b>Marquette</b>	State <b>MI</b>	ZIP <b>49855</b>
Accountant Signature <i>Makela, Toutant, Hill &amp; Nardi, P.C.</i>		Date <b>11/4/05</b>	

Audited Basic Financial Statements  
Required Supplementary Information  
And Other Financial Information

**NORTH STAR ACADEMY**

June 30, 2005

Audited Basic Financial Statements  
Required Supplementary Information  
And Other Financial Information

**NORTH STAR ACADEMY**

June 30, 2005

Audited Financial Statements

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**North Star Academy  
Management Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005**

North Star Academy is a Charter School Academy located in Ishpeming, Michigan. North Star Academy's Management Discussion and Analysis is intended to assist the reader in focusing on significant financial issues, provide an overview of the Academy's financial activity, and identify changes in the Academy's financial position and its ability to address future operations. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2005.

**FINANCIAL HIGHLIGHTS**

- Net Assets for North Star Academy as a whole were reported at \$108,364 at June 30, 2005 and \$125,056 at June 30, 2004
- For the year ended June 30, 2005, North Star Academy's expenses were \$629,091, while revenues from all sources totaled \$612,399, resulting in a decrease in net assets of \$16,692
- The general fund reported a decrease of \$15,774 before other financing sources (uses). This is \$3,336 or 21% less than the budgeted decrease of \$19,110. This was a result of revenues being \$12,061 lower and expenses being \$15,397 lower than the budgeted amounts.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand North Star Academy financially as a whole. The *Government-wide Financial Statement's* Statement of Net Assets and the Statement of Activities provide information about the activities of the Academy as a whole and present a longer-term view of those finances. The fund financial statements present the next level of detail. For governmental activities, these statements tell how those services were financed in the short term as well as what remains for future spending. The fund financial statements also report the Academy's operations in more detail than the government-wide statements by providing information about the Academy's major fund – the General Fund, with the aggregate of the non-major funds presented in one column as Other Governmental Funds. The Statement of Fiduciary Net Assets is an additional statement for this fiscal year presenting financial information about activities for which the Academy acts solely in an agent or fiduciary capacity for the benefit of the students.

**Reporting the Academy as a Whole – *Government-Wide Financial Statements***

The Government-Wide statements provide a long-term perspective of the Academy as a whole. These statements use the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid.

**North Star Academy  
Management Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005--Continued**

These two statements report the Academy's net assets and changes to those net assets. The Academy's net assets – the difference between assets and liabilities – is one way to measure the Academy's financial health, or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenditures is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as private-sector companies do. One must consider other non-financial factors, such as the quality of education provided, the safety of the Academy, and the condition of the Academy's capital assets, to assess the overall financial health of the Academy.

The Statement of Net Assets and the Statement of Activities report the governmental activities for the Academy, which encompass all Academy services, including instruction, supporting services, community services, and food services. Unrestricted State Aid (foundation allowance revenue), and state and federal grants finance most of these activities.

**Reporting the Academy's Major Funds – *Fund Financial Statements***

The fund financial statements are reported using the modified accrual basis of accounting. Under this method, financial assets are recorded when they are "measurable" and "available". Expenditures are accounted for in the period those goods and services are used in school programs. In addition, capital assets purchased are recorded as capital outlay expenditures and not recorded as an asset. Debt payments are recorded as expenditures in the current year and future debt obligations are not recorded.

***Governmental Fund Types***

General Fund: The General Fund is the general operating fund and is used primarily to account for the educational requirements of the Academy.

School Service Fund: The School Service Fund is comprised of food service activities.

**North Star Academy  
Management Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005--Continued**

**The Academy as a Whole**

Table 1 provides a summary of the Academy's Net Assets as of June 30, 2005 and June 30, 2004:

**Table 1  
Net Assets**

	Governmental Activities 2005	Governmental Activities 2004
Current and other assets	\$ 317,835	\$ 321,017
Other Non-current assets	0	0
Capital assets, Net	0	0
<b>TOTAL ASSETS</b>	<b>317,835</b>	<b>321,017</b>
Current liabilities	\$ 209,471	\$ 195,961
Long-term liabilities	0	0
<b>TOTAL LIABILITIES</b>	<b>209,471</b>	<b>195,961</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt		
Restricted	\$ 82,000	\$ 82,000
Unrestricted	26,364	43,056
<b>TOTAL NET ASSETS</b>	<b>\$ 108,364</b>	<b>\$ 125,056</b>

The Academy's net assets were \$108,364 at June 30, 2005. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy's ability to use those assets for day-to-day operations. The remaining amount of net assets of \$26,364 was unrestricted.

The \$26,364 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Academy as a whole are reported in the Statement of Activities (See Table 2), which shows the changes in net assets for fiscal year 2005.

**North Star Academy**  
**Management Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2005--Continued**

**Table 2**  
**Changes in Net Assets**

	Governmental Activities 2005	Governmental Activities 2004
<b>REVENUES</b>		
Program revenues:		
Charges for services	\$ 175	\$ 3,088
Operating grants and contributions	211,119	119,546
General revenues:		
State sources not restricted to specific program	377,948	430,339
Investment earnings	1,477	506
Local	21,680	18,767
<b>TOTAL ASSETS</b>	<b>612,399</b>	<b>572,246</b>
 Program Expenses:		
Instruction	\$ 201,715	\$ 232,042
Supporting services	412,660	298,839
Community services	1,006	1,753
Food service activities	10,033	10,674
Facility acquisition and other transactions	3,677	6,527
<b>TOTAL EXPENSES</b>	<b>629,091</b>	<b>549,835</b>
Increase (decrease) in net assets	(16,692)	22,411
Net assets at beginning of year	125,056	102,645
 <b>NET ASSETS AT END OF YEAR</b>	<b>\$ 108,364</b>	<b>\$ 125,056</b>

As reported in the Statement of Activities, the cost of all our governmental activities this year was \$629,091. Certain activities were partially funded from those who benefited from the programs (\$175) or by other governmental organizations that subsidized certain programs with grants (\$211,119). North Star Academy paid for the remaining "public benefit" portion of our governmental activities with \$377,948 in State Foundation Allowance funding and with other miscellaneous revenues.

The Academy experienced a decrease in net assets for the year of \$16,692 due to a reduction in state aid.

Table 3 presents the cost of each of the Academy's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the Academy's operation.

**North Star Academy  
Management Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005--Continued**

**Table 3  
Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 201,715	\$ 109,597
Supporting services	412,660	303,098
Community services	1,006	1,006
Food service activities	10,033	419
Facility acquisition and other transfers	<u>3,677</u>	<u>3,677</u>
	<u>\$ 629,091</u>	<u>\$ 417,797</u>

The net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted State aid constitutes 62% of the Academy's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the Academy and balance those needs with the State-prescribed available financial resources.

**General Fund Budgetary Highlights**

Over the course of the year, the Academy's Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

**BUDGETED REVENUES:**

General Fund Revenues changed from Original to Final Budget during the year as follows:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budget Variance</u>	
			<u>Amount</u>	<u>Percent</u>
Total	<u>\$ 589,109</u>	<u>\$ 614,845</u>	<u>\$ 25,736</u>	<u>4.4%</u>

North Star Academy's final budgeted revenues differed from the original budget as follows:

- Increases by \$25,736 or 4.4%



**North Star Academy**  
**Management Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2005--Continued**

The significant increase in the budgeted revenue can be attributed mainly to grants. Grants are recognized in the Academy's financial statements once North Star receives formal notice of award and approval from the State. Hence, no grants were awarded at the time of the original budget whereas all grants were awarded and approved by the time of the final budget. Also, the final budgets include grant revenues that will be utilized in the next fiscal year. The Academy budgeted the entire grant awarded by the grantors, even if the grants were to be eligible for carryover into the next fiscal year.

**BUDGETED EXPENDITURES**

General Fund Expenditures changed from the Original to Final budget during the year as follows:

	Original Budget	Final Budget	Budget Variance	
			Amount	Percent
Total	<u>\$ 575,629</u>	<u>\$ 633,955</u>	<u>\$ 58,326</u>	<u>10.1%</u>

North Star Academy's final budgeted expenditures differed from the original budget as follows:

- Increased by \$58,326 or 10.1%

The significant increase in the budgeted expenditures can be attributed mainly to grants. Grants are recognized in the Academy's financial statements once North Star receives formal notice of award and approval from the State. Hence, no grants were awarded at the time of the original budget whereas all grants were awarded and approved by the time of the final budget. Also, the final budgets include grant expenditures that will be expended in the next fiscal year. The Academy budgeted the entire grant awarded by the grantors, even if the grants were to be eligible for carryover into the next fiscal year.

**ACTUAL REVENUES**

The General Fund actual revenues differed from the final budget as follows:

	Actual	Final Budget	Variance	
			Amount	Percent
Total	<u>\$ 602,784</u>	<u>\$ 614,845</u>	<u>\$ (12,061)</u>	<u>(2.0)%</u>

North Star Academy's final budgeted revenues differed from the actual revenues as follows:

- Decreased by \$12,061 or 2.0% less than the final budget.

**North Star Academy**  
**Management Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2005--Continued**

The significant variance in revenue can be attributed mainly to Local Sources (\$12,390). This was due to the combination of actual Universal Service Fund reimbursement for qualifying communication expenditures being less than anticipated, and the final budgets including grant revenues that will be utilized in the next fiscal year. The Academy budgets the entire grant awarded by the grantors, even if the grants were to be eligible for carryover into the next fiscal year.

**ACTUAL EXPENDITURES**

General Fund actual expenditures differed from the final budget as follows:

	Actual	Final Budget	Variance	
			Amount	Percent
Total	\$ 618,558	\$ 633,955	\$ (15,397)	(2.5)%

North Star Academy's final budgeted expenditures differed from the actual revenues as follows:

- Decreased by \$15,397 or 2.5% less than the final budget.

The significant variance in expenditures can be attributed mainly to a combination of USF expenditures budgeted but not incurred during the course of the year (\$8,492), and the final budgets including grant expenditures that will be expended in the next fiscal year. The Academy budgets the entire grant awarded by the grantors, even if the grants were to be eligible for carryover into the next fiscal year.

**Capital Assets and Debt Administration**

***Capital Assets***

Under the GASB 34 requirement, North Star Academy has established a capital asset threshold of \$5,000. As of June 30, 2005, the Academy has one capital asset that was purchased in an amount greater than \$5,000. This asset is fully depreciated. For further information refer to Note C of the financial statements.

***Debt***

As of June 30, 2005, the Academy had a \$140,000 state anticipation note that was to be repaid on August 20, 2005. The interest was paid on August 20, 2005 and the note of \$140,000 was renewed and matures in August 2006. See Note E to the financial statements.

**North Star Academy  
Management Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005--Continued**

**Economic Factors and Next Year's Budgets**

The Academy's elected officials and administration considered many factors when setting the Academy's fiscal year 2006 budget. One of the most important factors affecting the budget is the student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2006 fiscal year budget was adopted in June 2005, based on an estimated student count for fiscal year 2005-2006. State Aid represents 70 percent of the total General Fund revenues. Based on early enrollment data at the start of the 2005-2006 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2006 fiscal budget. Once the final student count and related per pupil funding is validated, State law requires the Academy to amend the budget, if actual government resources are not sufficient to fund original appropriations.

The State budget continues to be an area of concern. If State revenues fall short of projections, funding could be reduced at the local level.

The Academy has also entered into an agreement for the acquisition of a new instructional and administrative building located in Marquette, Michigan, as detailed in the Notes to Financial Statements, Note L, Instructional and Administrative Building.

**Contacting the Academy's Financial Management**

This financial report is designated to provide the citizens, taxpayers, customers, and investors and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information, contact North Star Academy, 3030 Wright Street, Marquette, Michigan 49855.



**MAKELA, TOUTANT, HILL & NARDI, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

201 West Bluff Street  
Marquette, Michigan 49855

Members  
American Institute of CPAs  
Michigan Association of CPAs

## **REPORT OF INDEPENDENT AUDITORS**

Board of Education  
North Star Academy  
Marquette, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Star Academy, (Academy), as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of North Star Academy, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2005, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



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Board of Education  
North Star Academy

The management's discussion and analysis and budgetary comparison information on pages one through eight and 30, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Star Academy's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Makela, Toutant, Hill + Nardi, P.C.

October 14, 2005

# STATEMENT OF NET ASSETS

## NORTH STAR ACADEMY

June 30, 2005

	<u>Governmental Activities</u>
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 13,330
Investments	100,366
Receivables:	
Due from other governmental units	115,616
Prepaid expenses	6,523
Deposit in escrow	<u>82,000</u>
TOTAL CURRENT ASSETS	317,835
<b>NONCURRENT ASSETS</b>	
Capital assets	6,447
Less: accumulated depreciation	<u>(6,447)</u>
TOTAL NONCURRENT ASSETS	<u>0</u>
TOTAL ASSETS	<u>317,835</u>
<b>CURRENT LIABILITIES</b>	
Accounts payable	27,061
Employee compensation and related liabilities	32,941
State anticipation note	140,000
Accrued interest	3,756
Deferred revenue	<u>5,713</u>
TOTAL CURRENT LIABILITIES	<u>209,471</u>
TOTAL LIABILITIES	<u>209,471</u>
<b>NET ASSETS</b>	
Restricted	
Escrow account--land purchase	82,000
Unrestricted	<u>26,364</u>
TOTAL NET ASSETS	<u>\$ 108,364</u>

See notes to financial statements.

# STATEMENT OF ACTIVITIES

## NORTH STAR ACADEMY

Year Ended June 30, 2005

	<u>Program Revenues</u>			<u>Governmental</u>
				<u>Activities</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Net (Expense)</u>
		<u>Services</u>	<u>Grants and</u>	<u>Revenue and</u>
			<u>Contributions</u>	<u>Changes in</u>
				<u>Net Assets</u>
FUNCTIONS/PROGRAMS:				
Governmental Activities:				
Instruction and instructional support	\$ 201,715		\$ 92,118	\$ (109,597)
Support services	412,660		109,562	(303,098)
Food services	10,033	\$ 175	9,439	(419)
Community service direction	1,006			(1,006)
Other transactions	<u>3,677</u>			<u>(3,677)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 629,091</u>	<u>\$ 175</u>	<u>\$ 211,119</u>	(417,797)
GENERAL REVENUES:				
Local revenue, unrestricted				21,680
State of Michigan aid, unrestricted				377,948
Interest and investment earnings				<u>1,477</u>
TOTAL GENERAL REVENUES				<u>401,105</u>
CHANGE IN NET ASSETS				(16,692)
Net assets at beginning of year				<u>125,056</u>
NET ASSETS AT END OF YEAR				<u>\$ 108,364</u>

See notes to financial statements.



BALANCE SHEET--GOVERNMENTAL FUNDS

**NORTH STAR ACADEMY**

June 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 12,580	\$ 750	\$ 13,330
Investments	100,366		100,366
Due from other governmental units	115,616		115,616
Prepaid expense	6,523		6,523
Deposit in escrow	82,000		82,000
<b>TOTAL ASSETS</b>	<b>\$ 317,085</b>	<b>\$ 750</b>	<b>\$ 317,835</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 26,812	\$ 249	\$ 27,061
Accrued salaries and withholdings	32,941		32,941
State anticipation note	140,000		140,000
Accrued interest	3,756		3,756
Deferred revenue	5,713		5,713
<b>TOTAL LIABILITIES</b>	<b>209,222</b>	<b>249</b>	<b>209,471</b>
<b>FUND BALANCES</b>			
Reserved for:			
Purchase of land	82,000		82,000
Unreserved	25,863	501	26,364
<b>TOTAL FUND BALANCES</b>	<b>107,863</b>	<b>501</b>	<b>108,364</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 317,085</b>	<b>\$ 750</b>	<b>\$ 317,835</b>

See notes to financial statements.



RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

**NORTH STAR ACADEMY**

June 30, 2005

Total fund balance--governmental funds \$ 108,364

Amounts reported for governmental activities in the Statement  
of Net Assets are different because:

Capital assets used in governmental activities are not financial  
resources; therefore, are not reported as assets in  
governmental funds. Capital assets at end of year consist of:

Cost of capital assets	\$ 6,447	
Accumulated depreciation	<u>(6,447)</u>	
		<u>0</u>

TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 108,364

See notes to financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES--GOVERNMENTAL FUNDS

**NORTH STAR ACADEMY**

Year Ended June 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Local sources	\$ 32,011	\$ 175	\$ 32,186
State sources	418,866	526	419,392
Federal sources	131,991	8,913	140,904
Interest on investments	1,476	1	1,477
Miscellaneous	18,440		18,440
<b>TOTAL REVENUES</b>	<b>602,784</b>	<b>9,615</b>	<b>612,399</b>
<b>EXPENDITURES</b>			
Current:			
Instruction and instructional support services	201,715		201,715
Supporting services	412,660		412,660
Community services	1,006		1,006
Other transactions	3,177		3,177
Food service		10,033	10,033
<b>TOTAL EXPENDITURES</b>	<b>618,558</b>	<b>10,033</b>	<b>628,591</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(15,774)</b>	<b>(418)</b>	<b>(16,192)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating transfers in		919	919
Operating transfers out	(1,419)		(1,419)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,419)</b>	<b>919</b>	<b>(500)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(17,193)</b>	<b>501</b>	<b>(16,692)</b>
Fund balance at beginning of year	125,056		125,056
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 107,863</b>	<b>\$ 501</b>	<b>\$ 108,364</b>

See notes to financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

**NORTH STAR ACADEMY**

Year Ended June 30, 2005

Net change in fund balances--governmental funds	\$ (16,692)
Amounts reported for governmental activities in the Statement of Activities are different because:	<u>0</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (16,692)</u></u>

See notes to financial statements.

STATEMENT OF NET ASSETS--FIDUCIARY FUND

**NORTH STAR ACADEMY**

Year Ended June 30, 2005

	<u>Trust Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	<u>\$          1,321</u>
TOTAL CURRENT ASSETS	<u><u>\$          1,321</u></u>
NET ASSETS	
Restricted	<u>\$          1,321</u>
TOTAL NET ASSETS	<u><u>\$          1,321</u></u>

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE--FIDUCIARY FUND

**NORTH STAR ACADEMY**

Year Ended June 30, 2005

	<u>Trust Fund</u>
NONOPERATING REVENUES (EXPENSES)	
Donations	\$ 820
Interest income	1
Transfer from General Fund	<u>500</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>1,321</u>
CHANGE IN NET ASSETS	1,321
Net assets at beginning of year	<u>0</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 1,321</u></u>

## NOTES TO FINANCIAL STATEMENTS

### NORTH STAR ACADEMY

June 30, 2005

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of North Star Academy (Academy) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local units of government through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, that do not conflict with or contradict GASB pronouncements. The more significant policies established in GAAP and used by the Academy are discussed below:

##### *Reporting Entity*

The Academy was chartered by Northern Michigan University to provide middle school and secondary education for students living in Marquette County. A five-member Board of Education appointed by Northern Michigan University has control of all operations of the Academy.

In evaluating how to define the Academy for financial reporting purposes, management has considered all potential component units. The decision not to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibilities include, but are not limited to, the selection of governing authority, the designation of management; the ability to significantly influence operations; and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Academy and/or its constituents, or whether the activity is conducted within the geographic boundaries of the Academy and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Academy is able to exercise oversight responsibilities.

Based upon the application of the criteria described above, the financial statements of the Academy contain all the funds controlled by the Academy's Board of Education, as no other entity meets the criteria to be considered a component unit of the Academy, nor is the Academy a component unit of another entity.

## NOTES TO FINANCIAL STATEMENTS--Continued

### NORTH STAR ACADEMY

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

##### *Basic Financial Statements--Government-Wide Financial Statements*

The Academy's basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Academy's instruction, support, and community services are classified as governmental activities. The Academy does not have any business-type activities.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported as either invested in capital assets, net of related debt, restricted, or unrestricted.

The government-wide Statement of Activities reports both the gross and net cost of each of the Academy's functions. General government revenues (property taxes, state aid, etc.) support the functions. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues (grants and charges for services), operating and capital grants directly associated with the function.

The government-wide focus emphasizes the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

The Academy will first apply restricted net assets for expenses incurred for purposes for which both restricted and unrestricted net assets are available.

##### *Basic Financial Statements--Fund Financial Statements*

The financial transactions of the Academy are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. The following funds are utilized by the Academy:

Governmental Funds: The focus of the governmental funds' measurement is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Academy:

## NOTES TO FINANCIAL STATEMENTS--Continued

### NORTH STAR ACADEMY

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

General Fund: The General Fund is the primary operating fund and, accordingly, it is used to account for all financial resources except those accounted for in another fund. The General Fund is always determined to be a major fund and is included in the fund financial statements.

Special Revenue Funds: The Special Revenue Fund is used to account for financial resources that provide hot lunch services. The hot lunch fund is a non-major fund and is included in the Other Governmental Funds column of the fund financial statements.

Debt Retirement Fund: The Debt Retirement Fund is used to accumulate resources for payment of interest and principal on long-term debt. The debt retirement fund is a non-major fund and is included in the Other Governmental Funds column of the fund financial statements.

Fiduciary Funds: Fiduciary Funds are used to report assets held in a trustee or agency capacity for others; therefore, are not available to support the Academy's programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds.

The emphasis in fund financial statements is on the major funds. Non-major funds by category are summarized into a single column for presentation. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category or the government combined) for the determination of major funds.

The Academy's Fiduciary Fund is presented in the fund financial statements by type. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the Academy, these funds are not incorporated into the government-wide financial statements.

#### *Basis of Accounting*

The basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Government activities in government-wide financial statements, and Fiduciary Fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.



## NOTES TO FINANCIAL STATEMENTS--Continued

### NORTH STAR ACADEMY

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Governmental Fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; that is, when both measurable and available. "Available" means collectible within the current period or within sixty days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred, except for principal and interest on general obligation debt, if any, is recognized when due.

Cash and Cash Equivalents: The Academy has defined cash and cash equivalents to include cash on hand, demand deposits, and time deposits with an initial maturity of three months or less.

Deposits and Investments: The Academy reports its investments in accordance with GASB No. 40, *Deposit and Investment Risk Disclosures*. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified are also disclosed. The Academy had total investments of \$114,858 at June 30, 2005.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, mutual funds composed of investments as outlined above, and obligations of the State of Michigan or any of its political subdivisions.

Capital Assets: Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets, if any, are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives.

Computers	5 years
Furniture and equipment	5-20 years
Leasehold improvements	5-30 years

## NOTES TO FINANCIAL STATEMENTS--Continued

### NORTH STAR ACADEMY

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

General capital assets are those that result from expenditures in the Governmental Funds. These assets are reported in the Governmental Activities column of the government-wide Statement of Net Assets, but are reported in the fund financial statements as capital outlay expenditures.

Accrued Liabilities and Long-Term Obligations: Payables and accrued liabilities that will be paid from governmental funds are reported on Governmental Fund financial statements regardless of whether they will be liquidated with current financial resources. The non-current portion of compensated absences, that will be paid from Governmental Funds are reported as a liability in fund financial statements only to the extent that they will be paid with current, expendable, available financial resources (generally, within sixty days of year-end). Other non-current liabilities that will be paid from governmental funds are not recognized as a liability in fund financial statements until due.

Deferred Revenue: The Academy reports deferred revenue when revenue does not meet both the "measurable" and "available" criteria for recognition in the current period, or when resources are received by the Academy before it has a legal claim to them, such as when grant money is received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Academy has legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

Net Assets: Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted only when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or other government regulation.

Interfund Activity: Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are treated as revenues and expenditures/expenses. Reimbursement occurs when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between Governmental or Proprietary Funds are netted as part of the reconciliation to the government-wide financial statements.

Accounts Payable: Amounts due for expenses incurred but not paid as of June 30 are recorded as accounts payable on the balance sheet.

## NOTES TO FINANCIAL STATEMENTS--Continued

### NORTH STAR ACADEMY

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Employee Compensation and Related Liabilities: Payroll and related withholdings, which have been earned by Academy employees, but not paid as of June 30, are recorded as a liability on the Academy's balance sheet. Substantially, all of the Academy's employees participate in the Michigan Public School Employees' Retirement System. The Michigan Public Schools Employees' Retirement System provides additional post-employment benefits.

Fund Balance: The unreserved fund balances represent the amount available for budgeting future operations. The reserved fund balances represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources." The designated fund balances represent tentative plans for future use of financial resources.

State Revenue: The State of Michigan uses a foundation grant approach that provides for a specific annual amount of revenue per student based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on a weighted average of pupil membership counts.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year are recorded as deferred revenue.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgets and the Budgetary Process: The Academy follows the budgetary process prescribed by provisions of the State of Michigan Uniform Budgeting and Accounting Act, and entails the preparation of budgetary documents within an established timetable. All funds are legally required to be budgeted and appropriated with the exception of Fiduciary Funds. The legal level of budgetary control has been established at the functional level with modifications made only by a resolution of the Board. At the close of each year, budget appropriations lapse.

NOTES TO FINANCIAL STATEMENTS--Continued

**NORTH STAR ACADEMY**

**NOTE B--CASH AND CASH EQUIVALENTS AND INVESTMENTS**

Cash and cash equivalents and investments included in the basic financial statements as of June 30, 2005, consist of the following:

Fund Financial Statements:		
Cash and cash equivalents	\$ 14,651	
Investments		\$ 100,366
TOTAL	<u>\$ 14,651</u>	<u>\$ 100,366</u>

Cash and cash equivalents and investments can also be summarized into the following categories:

	<u>Cash &amp; Cash</u>	<u>Investments</u>
	<u>Equivalents</u>	
Cash in savings accounts	\$ 15,707	
Cash on hand	349	
Cash in checking	(1,405)	
MILAF funds		\$ 100,366
TOTAL	<u>\$ 14,651</u>	<u>\$ 100,366</u>

Custodial Credit Risk

At year-end, the carrying amount of the Academy's deposits with financial institutions was \$14,302 and the balance per bank statements was \$44,558, of which all \$44,558 is insured by the Federal Deposit Insurance Corporation (FDIC). The total amount is insured by the FDIC and therefore, the Academy is not subject to custodian credit risk.

NOTES TO FINANCIAL STATEMENTS--Continued

**NORTH STAR ACADEMY**

**NOTE B--CASH AND CASH EQUIVALENTS AND INVESTMENTS--Continued**

Investments

At year-end, the investments reported above can also be summarized in the following manner by listing investment type and the scheduled maturities:

	<u>Fair Value</u>	<u>Maturities Less than 1 year</u>
Michigan Liquid Asset Fund Plus - Cash Management Series (MICMS)	\$ 92,566	\$ 92,566
Michigan Liquid Asset Fund Plus - Max Series (MIMAX)	<u>7,800</u>	<u>7,800</u>
	<u>\$ 100,366</u>	<u>\$ 100,366</u>

Investment Interest Rate Risk

The Academy has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investments at June 30, 2005, are provided in the previous schedule.

**NOTE C--CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005, was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Capital assets:				
Furniture and equipment	<u>\$ 6,447</u>	<u></u>	<u></u>	<u>\$ 6,447</u>
<b>TOTAL CAPITAL ASSETS</b>	<u>\$ 6,447</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,447</u>
	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Accumulated depreciation:				
Furniture and equipment	<u>\$ 6,447</u>	<u></u>	<u></u>	<u>\$ 6,447</u>
Subtotal	<u>6,447</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>6,447</u>
<b>NET CAPITAL ASSETS</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

NOTES TO FINANCIAL STATEMENTS--Continued

**NORTH STAR ACADEMY**

**NOTE D--DEFERRED REVENUE**

Deferred revenue consists of the following at June 30, 2005:

Excellence in Education 03-05	\$ 1,500
Excellence in Education 04-06	1,500
Excellence in Education	2,500
Title II - D	<u>213</u>
<b>TOTAL DEFERRED REVENUE</b>	<b><u>\$ 5,713</u></b>

**NOTE E--STATE ANTICIPATION NOTE**

The Academy signed a State Anticipation Note, secured by its future State Aid payments from a financial institution on August 20, 2004. The State Anticipation Note, which was a renewal of the 2004 Note, has a face value of \$140,000 and bears interest at 2.65 percent. The total amount of principal and interest was payable on August 20, 2005, but was again renewed for use during the next fiscal year. This note was used for operations during the summer months.

**NOTE F--TRANSFERS**

Amounts transferred to and from various individual funds for the year ended June 30, 2005, are as follows:

<u>Fund</u>	<u>Transfers to other funds</u>	<u>Fund</u>	<u>Transfers from other funds</u>
General	<u>\$ 1,419</u>	Food Service	\$ 419
		Debt Retirement	500
		Trust	<u>500</u>
	<u>\$ 1,419</u>		<u>\$ 1,419</u>

**NOTE G--MICHIGAN UNIFORM BUDGETING AND ACCOUNTING ACT**

The Academy's budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) and the budget, as presented, has been amended. Capital outlay budgets in the General Fund are not segregated from other educational expenditures for financial statement presentation. The District did not budget for any Capital Outlay expenditures in the General Fund for the fiscal year ending June 30, 2005.

## NOTES TO FINANCIAL STATEMENTS--Continued

### **NORTH STAR ACADEMY**

#### **NOTE H--FUND BALANCE**

The Academy's financial statements include \$107,863 of fund balance in the General Fund. Of this amount, \$82,000 is reserved for the purchase of land and construction of a new educational building. The remaining \$25,863 is unreserved fund balance available for future year operations.

#### **NOTE I--EMPLOYEE RETIREMENT SYSTEM--DEFINED BENEFIT PLAN**

The Academy contributes to the Michigan Public School Employees' Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor, and disability benefits to public school employees. Eligibility and benefit provisions are governed under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. MPERS issues a publicly available financial report that includes financial statements and required supplementary information. The annual report may be obtained by writing to the Department of Management and Budget, Office of Retirement Systems, P.O. Box 30673, Lansing, Michigan 48909-8103, or by calling (517) 322-5103.

The Academy is required by state statute to contribute 12.99 percent of covered payroll from July 1, 2004 to September 30, 2004, and 14.87 percent from October 1, 2004 to June 30, 2005. Contributions to MPERS are determined on an actuarial basis using the entry age normal actuarial cost method. Contribution requirements of plan members including the Academy are established and may be amended only by state statute. The Academy's contributions to MPERS for the years ending June 30, 2005, 2004, and 2003 were \$37,883; \$35,471; and \$35,916, respectively. There were no required contributions payable at June 30, 2005, 2004, or 2003.

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9 percent of gross wages.

The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9 percent. Members first hired January 1, 1990, or later and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Basic Plan members make no contributions. Contributions collected and remitted by the Academy on behalf of MIP members for the year ending June 30, 2005, 2004, and 2003 were \$9,582; \$10,383; and \$10,884, respectively, equal to the required contributions for each year.

## NOTES TO FINANCIAL STATEMENTS--Continued

### NORTH STAR ACADEMY

#### NOTE I--EMPLOYEE RETIREMENT SYSTEM--DEFINED BENEFIT PLAN--Continued

##### Other Post-Employment Benefits

In addition to the pension benefits, MPSERS provides comprehensive group medical, hearing, dental, and vision coverage for retirees and beneficiaries. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension of the retiree. The portion provided by MPSERS is factored into the pension contribution rate.

#### NOTE J--OPERATING LEASES

The Academy was obligated under certain building leases accounted for as operating leases during the year ended June 30, 2005. Operating leases do not give rise to property rights or obligations; therefore, the lease agreements are not reflected as long-term obligations. Total rental expense for the year ended June 30, 2005, is \$33,452. The Academy has made the decision to vacate these buildings upon final financing arrangements for the new building, which is expected to take place in September 2005. The Academy is currently on a month-to-month lease agreement that will expire when they vacate the Ishpeming facility in September 2005.

#### NOTE K--RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Academy purchases commercial insurance for its liability and excess liability coverage. The Academy's liability insurance coverage is limited to \$1,000,000 per occurrence with a maximum of \$3,000,000 for all claims. The Academy also maintains excess liability coverage of \$1,000,000 per occurrence with a maximum aggregate of \$1,000,000.

Management is unaware of any pending or threatened claims that would not be covered by their policy that are material to the financial statements.

#### NOTE L--INSTRUCTIONAL AND ADMINISTRATIVE BUILDING

As of June 30, 2005, the Academy was in the process of negotiating a financing arrangement for the acquisition of a new instructional and administration building. Subsequently, on September 14, 2005, the Academy acquired the new facility via entering into a loan agreement with a third party. The loan agreement is in the amount of \$979,220 representing the purchase price of the facility. The loan agreement calls for monthly loan payments of \$7,000, including interest at 6.5 percent, beginning on October 24, 2005 and ending on August 24, 2027. Future year financial statements will include long-term debt related to this loan.



## **REQUIRED SUPPLEMENTARY INFORMATION**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL--GENERAL FUND

**NORTH STAR ACADEMY**

Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local sources	\$ 33,462	\$ 45,877	\$ 33,487	\$ (12,390)
State sources	483,112	418,890	418,866	(24)
Federal sources	51,574	131,639	131,991	352
Other sources	20,961	18,439	18,440	1
TOTAL REVENUES	589,109	614,845	602,784	(12,061)
EXPENDITURES				
Current:				
Instruction	225,098	212,644	201,715	10,929
Supporting services	349,728	417,128	412,660	4,468
Community service direction	803	1,006	1,006	0
Other transactions		3,177	3,177	0
TOTAL EXPENDITURES	575,629	633,955	618,558	15,397
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	13,480	(19,110)	(15,774)	3,336
OTHER FINANCING SOURCES (USES)				
Transfer to other funds (net)	(2,850)	(1,000)	(1,419)	(419)
TOTAL OTHER FINANCING SOURCES (USES)	(2,850)	(1,000)	(1,419)	(419)
NET CHANGE IN FUND BALANCE	10,630	(20,110)	(17,193)	2,917
Fund balance at beginning of year	125,056	125,056	125,056	
FUND BALANCE AT END OF YEAR	\$ 135,686	\$ 104,946	\$ 107,863	\$ 2,917

## **OTHER FINANCIAL INFORMATION**

COMBINING BALANCE SHEET--OTHER GOVERNMENTAL FUNDS

**NORTH STAR ACADEMY**

June 30, 2005

	<u>Food Service</u>	<u>Debt Retirement Fund</u>	<u>Total Other Governmental Funds</u>
ASSETS			
Cash	<u>\$        249</u>	<u>\$        501</u>	<u>\$        750</u>
TOTAL ASSETS	<u><u>\$        249</u></u>	<u><u>\$        501</u></u>	<u><u>\$        750</u></u>
LIABILITIES			
Accounts payable	<u>\$        249</u>		<u>\$        249</u>
TOTAL LIABILITIES	<u>249</u>	<u>\$          0</u>	<u>249</u>
FUND BALANCE			
Unreserved		<u>501</u>	<u>501</u>
TOTAL FUND BALANCE	<u>0</u>	<u>501</u>	<u>501</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$        249</u></u>	<u><u>\$        501</u></u>	<u><u>\$        750</u></u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE--OTHER GOVERNMENTAL FUNDS

**NORTH STAR ACADEMY**

Year Ended June 30, 2005

	<u>Food Service</u>	<u>Debt Retirement Fund</u>	<u>Total Other Governmental Funds</u>
REVENUES			
Local sources	\$ 175		\$ 175
State sources	526		526
Federal sources	8,913		8,913
Interest on investments		\$ 1	1
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL REVENUES	<u>\$ 9,614</u>	<u>\$ 1</u>	<u>\$ 9,615</u>
EXPENDITURES			
Food service	\$ 10,033		\$ 10,033
	<u>10,033</u>	<u>\$ 0</u>	<u>10,033</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(419)	1	(418)
OTHER FINANCING SOURCES (USES)			
Incoming transfers and other transactions	419	500	919
TOTAL OTHER FINANCING SOURCES (USES)	<u>419</u>	<u>500</u>	<u>919</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (EXPENDITURES AND OTHER FINANCING USES)		501	501
Fund balance at beginning of year	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCE AT END OF YEAR	<u>\$ 0</u>	<u>\$ 501</u>	<u>\$ 501</u>



**MAKELA, TOUTANT, HILL & NARDI, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

201 West Bluff Street  
Marquette, Michigan 49855

Members  
American Institute of CPAs  
Michigan Association of CPAs

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Education  
North Star Academy  
Marquette, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Star Academy as of and for the year ended June 30, 2005, which collectively comprise North Star Academy's basic financial statements and have issued our report thereon dated October 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Star Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



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Board of Education  
North Star Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Star Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Makela, Tautant, Hill & Nardi, P.C.

October 14, 2005